

FINAL MEETING SUMMARY
HANFORD ADVISORY BOARD
BUDGETS AND CONTRACTS COMMITTEE
November 12, 2002
Richland, WA

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<i>This is only a summary of issues and actions in this meeting. It may not represent the fullness of ideas discussed or opinions given, and should not be used as a substitute for actual public involvement or public comment on any particular topic unless specifically identified as such.</i>

Introduction and Welcome

Harold Heacock, chair of the Budgets and Contracts committee, opened the meeting and welcomed the committee. He introduced the agenda and briefly outlined each topic that would be discussed during the meeting.

DOE-ORP Staffing

Harold introduced Greg Jones, Department of Energy-Office of River Protection (DOE-ORP). Greg said that under DOE-ORP's new manager, Roy Schepens, they are reviewing the number of people necessary for ORP to function smoothly. Roy feels that DOE-ORP can function normally with about 110 people on staff. Greg described what each subdivision of the department does and how many people have been hired to work in each of those subdivisions.

There are 26 people working in the Office of Environmental Safety Quality today because there are permitting issues needing to be currently addressed, whereas later in the project, the primary focus will be environmental concerns and the department can run

with significantly fewer employees. Greg said the goal is to get federal management focus to oversee what Bechtel National, Inc. (BNI) does.

Committee Discussion

- Jeff Luke asked if the WTP design changed significantly, was amended, or needed to be rewritten, how would the department reorganize to account for the problem. Greg responded that if permits or processes changed, they would maintain staff until the problem had been taken care of.
- Gerry Pollet asked what the 26 employees in the Waste Treatment Plant organization would be doing. Greg responded that some will be doing assessments and technical work, while others will be scheduling and completing other administrative work.
- Bob Larsen asked where the personnel department was. Greg answered that the Department of Energy's Richland Office (DOE-RL) will take care of that aspect, as well as safeguards and security, training, and funds allocation for Hanford. The safeguards and security employees will be federal and they will have DOE-RL support as well as contract support. The previous manager of the DOE-ORP tried to be more self-sufficient and so required more staff. Now, by sharing tasks with DOE-RL, ORP will require fewer employees.
- Keith Smith asked how much staffing will be available to contract staff. Greg was not certain of the specific quantity.
- Suzanne Dahl, Department of Ecology (Ecology), asked if there had been a reduction in contract support dollars. Greg replied that the financial contract reduction had been significant. Suzanne commented that when DOE-ORP cut contract support to provide staff augmentation, they cut support for construction inspection of the vitrification plant construction. She expressed concern that DOE is self-regulating therefore, DOE must ensure that qualified trained personnel are used for the inspections. Greg responded that ORP has put more federal resources into overseeing the BNI contract to address and mitigate the problem.
- Gerry Pollet asked where the new Environmental Impact Statement (EIS) for tank retrieval and closure will be managed. Greg responded that the environmental division will be working closely with CH2M Hill Hanford Group (CHG) and noted that DOE will be hiring a contractor to help them with the EIS.
- Keith asked if the engineering department's construction slowdown will affect the budget. Greg admitted he was not the right person to answer that question and he was not sure what was causing the downturns in the construction phase.

Waste Treatment Plant Cost Escalation and Baseline Changes

Harold explained that the committee had questions about WTP costs after one of the Tank Waste committee meetings and the previous Hanford Board meetings held on November 7 and 8, 2002. At those meetings, DOE reported that the estimated project cost had escalated from \$4.6 to \$5.6 billion.

Greg explained how the projected cost increased. DOE has been able to meet or remain below budgets in the past because they have not included estimates of construction risk contingencies in the past. DOE was asked to determine the cost with an 80% confidence level, which added \$300 million. Contingency should decrease as the project advances and nears completion. Increases are shown in the table below.

Category	December 2000 Contract Award Target Cost (\$B)	May 2002 Baseline Update (\$B)
Budget cost of work schedule	3.465	4.492
Contingency (50% confidence)	0.500	.300
Contractor target efficiencies	0	0
DOE contingency (80% confidence)	0	.300
Technical and programmatic risk assessment (TPRA)*	0	.135
Estimated fee (CPDS)	0.335	.335
Transition cost (CHG)	0	.050
Total	4.300	5.612

*TPRA calculated but not included in the Construction project data sheet (CPDS)

Bill Taylor, DOE-ORP, explained how some of the costs grew and why the changes in design that they represent will be critical for the functioning of the plant, including making cells maintainable and making the lab larger and in a separate building. The handout also showed construction distributables: consumables, cranes, and supporting materials for construction that are not part of the permitted plan. Bill said that the increased cost was due to an increase in detail and one full year of operations.

Committee Discussion

- Gerry Pollet asked if programmatic risk is equivalent to contingency. Greg responded that it is. The BNI contingency went down because they felt that they could complete the project close to the \$4.5 billion.
- Jeff Luke asked if there were any lessons learned from the increase in project cost estimates and how DOE dealt with the low contingency. Greg responded that what they learned was to increase the confidence levels, which added contingency.
- Melinda Brown, Ecology, noted that the cushion was decreased to \$300 million but the DOE contingency increased. The contract contingency decrease is in line, but Melinda is not sure about the DOE contingency. Greg answered that DOE is completing the required owner contingency, which was what caused the figures to increase.
- Bob Larsen asked if the new project costs were close to the costs of the project under the privatization plan. Greg responded the costs had been high because, as a private

industry, it was unlikely the contractor will have been able to acquire significant funds from investors. Suzanne commented that DOE cited the high hard cost – not the financing – as the reason why they decided not to hire the initial company.

- Bob asked what commissioning costs are. Bill Taylor responded that those costs include DOE completing integrated water runs, feeding both high and low waste processing trains with cold surrogates, conducting hot commissioning, then operating the plant successfully. DOE must prove that the WTP will run at the rate stated in the contract.
- Gerry asked why contingency increasing \$300 million would be allowable. He noted that DOE has a government fair cost estimate, which came before the increased estimate. BNI based its bid on estimated costs; since the throughputs have not been increased, if they cannot meet their goals, it should come out of their fee. Greg said that the numbers shown were the costs rather than the fee structure. BNI will probably not earn its entire cost fee; the target costs have not changed. Harold clarified that BNI has multiple change orders in, and those will affect the target cost, but a general cost increase is how they will make or lose their fees.
- Harold asked what the difference between actual and target costs were. Greg responded the cost presented to the committee is the total project cost; the difference from the fee is the target cost.
- Suzanne asked why Environmental Safety & Health costs increased. Bill responded the increase is due to the permitting and safety authorization processes. DOE is attempting to work within the safety regulation office to understand how to obtain dangerous waste permits over time.
- Melinda asked how increases in scope and cost could occur with staff decreasing to 26 individuals. Bill described how other subdivisions within the department will be integrated so that tasks will be managed and completed more efficiently. If an urgent need arose, the rest of DOE-ORP could be available to provide additional project personnel.
- Gerry asked what will be the cost of adding a high-level melter or the cost saved by removing a LAW melter. Melinda emphasized the value of knowing the cost of adding the third melter now versus later and what the cost of simply adding the infrastructure would be. Greg said the numbers will be available on November 22.
- Gerry commented that it would be more worthwhile to build a facility with 2 high-level waste (HLW) melters and 4 low-activity (LAW) melters (“2+4”) so that removal could be completed by 2035. Suzanne added that if DOE builds a 2+3 facility, they will never have to ask for a new facility to be built; it could finish treatment in its design life. She emphasized that it would not be advantageous to lose the third melter capacity.
- Bill said that the 2+4 configuration is not possible. DOE is planning on putting in the infrastructure to support 2+3 within their 2+2 plan, but they will not install the third LAW melter. It can be added at a later date. Gerry pointed out that a 3-melter facility would have differences in permitting so it would not be a given that a third melter could be added easily.

- Gerry expressed concern that the point when final, irreversible decisions are made will approach too soon. Bill responded that they will have data soon and will make a response in December.
- Jeff summarized points for possible Hanford Advisory Board advice in December: 2+3 gives DOE options, whereas 2+2 forces them into supplemental technologies. Jeff said that the priority should be vitrification capability. The advice should require the capability that was planned for, not less capability as would be dictated by unknown technologies. Gerry added the advice should mention the greater expense of building the third melter later.

DOE-ORP Contract Changes: CHG Performance Based Incentives (PBI's)

Greg discussed the PBI's in the CHG contract. He said that there had been criticism of earlier PBI's because many were qualitative and paper-oriented. Recently, however, those have changed to incentives that have become outcome-oriented. Whereas earlier incentives (there were about 200 at one point) were based on a paper deliverable, new incentives (only about 15 today) depend on a predetermined action.

Rick Raymond, CHG, reviewed the history of how CHG used PBI's to achieve goals and listed examples of CHG's experience. He added that incentives encourage companies to complete projects ahead of schedule.

Regulator Perspectives

- Jeff Lyon, Ecology, expressed concern about PBI's potentially encouraging the use of the most expedient method possible to complete the task and gain the reward, even if the method is not wholly appropriate for the specific task. He is concerned that more complicated methods will not be examined.
- Gerry Pollet asked what Ecology thought about the appropriateness of having PBI's that incentivize the closure of 40 tanks without providing a definition of closure. Jeff said DOE is required to have a closure plan and Ecology must be comfortable with the plan prior to closing any tanks. Those plans and actions will be subject to public input. Jeff expressed concern that there was a disconnect between the TPA agreements on waste removal and tank closure.
- Joy Turner, Ecology, expressed concern about all PBI issues. Joy said there has to be public input on the subject. She noted that Ecology had no input into the priorities that ORP chose to make incentives in the CHG PBI's.

Committee Discussion

- Bob Larsen asked, if the incentives were outcome-oriented, how will CHG manage safety issues? Greg responded that safety concerns will still fall under DOE's jurisdiction. He added that the contracts have "hold-back provisions" that will reduce or eliminate CHG's award if something unfavorable occurred. Mike Barrett, DOE-

ORP, added that CHG working in a safe manner is an assumption; there will not be PBI's for safety.

- Discussing the PBI for retrieval and closure, Gerry Pollet asked if leak detection was a requirement for interim status completion. He expressed concern that DOE is considering the notion of minimal or nonexistent leak detection. Gerry added that DOE cannot complete interim status unless they determine what is in the tanks.
- Keith Smith asked if "interim closure" means cutting the lines to the tanks. Greg responded that yes, isolating the tanks from the system is considered "interim closure".
- Gerry asked why DOE would be providing a PBI now for a project that will not be completed for multiple years. Rick replied that the incentives are for physical completion of a task.
- Maynard Plahuta suggested wording the PBI differently than stating DOE will be reducing detection while retrieving. Gerry added the document states that DOE will be doing minimal or no leak detection, an inappropriate statement prior to the publication of an EIS.
- Melinda Brown noted that PBI's are established on budget and allocation information. She said it was difficult to evaluate PBI's when the budget has yet to be determined. She questioned how a contractor could be incentivized to do a task when no one knows what will be financially available.

GAO Report to the Secretary of Energy on DOE Contract Reform

Mike Barrett presented the next agenda topic. He noted that DOE RL has implemented contract reform recommendations well. The GAO monitors the USDOE and encourages them to complete projects with better results.

Committee Discussion

- Bob Larsen asked if the fee payments to CHG will be interim payments or one sum at the end of the project. Mike answered that retrieval will be paid in increments and others paid in one sum, but the quantity is still under negotiations. He said that, if CHG does not complete the project, DOE might take the payment back.
- Gerry Pollet asked what would happen with the contract adjustment if the contractor began the closure process and DOE determined through the NEPA process did not permit closure. Greg answered that the contractor would need to prove they had done a significant amount of work to get their fee if the project switched direction. Mike Barrett said that if certain conditions were fulfilled, the USDOE might consider renegotiation or equitable adjustment of fees.

Fluor Hanford, Inc. Performance-Based Incentives

Mike Schlender, DOE-RL, described the framework that RL is using to negotiate Performance Incentives the PBI's for Fluor Hanford, Inc. (Fluor). He said that a first-rate safety performance is the goal; RL has begun discussing how to work with the goals and succeed without rewriting contracts that would undermine what has already been completed. Fluor is being asked to look at risk reduction, the performance management plan (PMP), transuranic (TRU) waste management, groundwater, and other critical issues. DOE has outlined PBI's that line up with TPA requirements and, though DOE will be asking the contractors to perform exceptionally well, they will also be asking Fluor to accelerate the schedule without sacrificing quality or safety.

Regulator Perspectives

- Dave Einan, EPA, said that DOE had briefed EPA. Mike said DOE is trying to balance the TPA agreement and the cost of cleanup. DOE wants to reduce the amount of inoperable facilities so that the costs of maintaining them can go directly to cleanup. Cesium and Strontium capsules must be retrieved from wet storage and vitrified and a route must be provided to the Yucca Mountain repository for the capsules.
- Melinda Brown stated that Ecology has overall questions regarding PBI's; PBI's may not be appropriate to the TPA. She said that, though Ecology is not wholly supportive of what DOE is proposing, Ecology did appreciate the opportunity to comment.

Committee Discussion

- Jeff Luke asked when the committee could hear about PBI specifics. Mike offered to share details in several weeks, when the PBI's are closer to being finalized.
- Keith Smith asked if there was current capacity for dry storage. Mike answered that the PI asked for a design to put capsules in dry storage by 2006. The current path suggests dry capsules be vitrified, but opening the capsules and vitrifying them should be avoided.
- Jim Hagar asked how reasonable it is to expect acceleration to be successful when DOE has had historical trouble completing deadlines on time. Mike explained that other sectors of the department will be helping out when needed, including Fluor, who will be providing the infrastructure.
- Keith asked if the inadequate facilities that laborers are working in will be removed or replaced. Mike answered that DOE has fees to provide building removal and that if the building performance is not at or above acceptable levels, it will get fixed.

Budget Planning Under Continuing Resolution

Bob Tibbatts, DOE-RL, discussed the continuing resolution and how it will affect the budget. He said that DOE-RL is managing at 2002 funding levels until they hear otherwise.

Committee Discussion

- Harold Heacock asked if the continuing resolution under the same level of funding as FY 2002 will harm any projects occurring in 2003. Bob answered that nothing will be hit as of November 22. If the contract is extended rather than renewed, DOE will then determine how to shift and reallocate funds.
- Gerry Pollet asked how long it will take the USDOE to implement a FY 2003 budget appropriation and to allocate Hanford its. Mike answered that it depends on changes made by Congress to DOE's fund request.
- Maynard Plahuta asked if there will be any impacts on the Fiscal Year (FY) 2004 budget and questioned whether it will be better to abandon the FY03 budget and focus on the FY04 budget. Jennifer Sands, DOE-ORP, said they are operating under the assumption that Congress will provide funds; they are just waiting to hear which scenario Congress finalizes.

Budget Process and Expectations for Next Year

Regulator Perspectives

- Melinda Brown said Ecology's TPA expectations have not changed; Ecology's charge is to promote the public's right to comment. She said that, despite the fact that stakeholders must be taken into account, a DOE letter of direction for FY 2004 had stated that that discussions with regulators were counterproductive. Ecology has been vocal in expressing discontent with regard to DOE's process, but Ecology has not initiated any negotiations to address the budget process within the TPA.
- Dave Einan noted that EPA feels as though DOE will do what they want with the budget process, regardless of regulatory agency input.

Committee Discussion

- Gerry expressed concern that the Committee's input into the review will not be incorporated into the next budget year. He also noted concerns that contracts are being made as if there have been budget agreements made when there have not been.

Update: Fluor Hanford, Inc. Project Operations Center

Paul Pimentel, Fluor, provided an update of the current status of the Project Operation Center (POC). He talked about Fluor's role with the WTP project and with DOE and how resources are shared between projects. Twenty-three employees in

Project/Construction Management, Project Controls and Estimating, Engineering, resource management, and administrative functions are covered by the \$3.2 million budget.

Committee Discussion

- Keith Smith felt that individuals working in the field could have written the K Basins study. He was concerned that Fluor hired 100 people to complete the study, but could not find room in the budget to hire an appropriate amount of field workers.
- Harold asked what was entailed in the engineering lab. Paul responded that the engineering lab develops technologies to replace people where it is too dangerous for humans to work, develops simulations, and builds computer models.
- Harold asked where the employees working on short-term projects will go when their projects are completed. Paul replied that they try to determine in advance when a project will close in order to shift those employees onto other projects.

Fast Flux Test Facility (FFTF) Acceleration Impacts

Al Farrabee, DOE-RL, discussed FFTF acceleration and the assumptions made and estimated costs. He said that initially, a study of closure of FFTF carried a price tag of \$547 million, assuming the end state was entombment. The following year, the cost increased to \$615 million. DOE asked the Fluor Hanford to restructure the effort with specific constraints and to produce the same results at a lower, more reasonable cost. The process was successful and the estimated cost decreased; DOE is looking to that estimate now for realistic expectations and assumptions.

Al noted that purchasing storage casks is expensive and DOE does not have funding in the current budget to buy them. It will require \$10 million this fiscal year to purchase them and delay in their purchase could lengthen the project by a year.

Committee Discussion

- Gerry Pollet asked what the cost will be if only deactivation as currently proposed is considered. Al responded that they wanted to make money available for high-risk activities, but the cost of current deactivation should be similar to what it has always been; around \$320 million.
- Gerry pointed out there is \$36 million in the budget for non-defense environmental management and the faster the site proceeds to monitoring and surveillance, the faster the money for the casks will become available.
- Dave Einan asked for the breakdown in financial figures. Al said that he will send those figures to the committee.
- Gerry asked when DOE will be prepared to address entombment with regards to the Comprehensive Environmental Response, Compensation & Liability Act (CERCLA)

process. He noted it is one thing to look at deactivation and a completely different situation to say DOE will use the CERCLA process.

Committee Work Planning/Path Forward

The committee decided it will present advice on the WTP at the December Board meeting. The committee also agreed to involve the Tank Waste committee in the advice preparation. Jeff and Gerry will co-write the advice and circulate it to the two committees.

Harold agreed to call Doug Huston, chair of Tank Waste committee and Todd Martin, chair of the Board to let them know about the advice.

The committee will not meet in December, and a January meeting is unlikely unless further budget information becomes available or other budget issues arise.

Handouts

- Budgets and Contracts Committee Agenda, November 12, 2002.
- Office of River Protection Organization, DOE-ORP.
- WTP Project Cost Change, Greg Jones, DOE-ORP.
- Performance Based Initiatives Numbers 1-4 (Both expired and recent copies).
- BCC/TWC Draft Advice, BCC Committee, November 12, 2002
- FH Project Operations Center, Paul Pimentel, November 12, 2002

Attendees

HAB Members and Alternates

Al Boldt	Jim Curdy	Jim Hagar
Harold Heacock	Robert Larsen	Jeff Luke
Gerry Pollet	Maynard Plahuta	Keith Smith

Others

Mike Barrett, DOE-ORP	Melinda Brown, Ecology	Bryan Kidder, CH2M Hill
Greg Jones, DOE-ORP	Jeff Lyon, Ecology	Courtney Harris, EnviroIssues
Jennifer Sands, DOE-ORP	Joy Turner, Ecology	Lynn Lefkoff, EnviroIssues
Bill Taylor, DOE-ORP	Rick Bond, Ecology	Paul Pimentel, Fluor Hanford
Mike Schlender, DOE-RL	Suzanne Dahl, Ecology	Barb Wise, Fluor Hanford
Bob Tibbatts, DOE-RL	Dave Einan, EPA	Sharon Braswell, Nuvotec/DOE-ORP
Janice Ward, DOE-RL		John Stang, Tri-Cities Herald